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What's $12.5 Billion? MPs Must Regain Control of Federal Spending

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The government's presentation of a budget to Parliament has a basic, critical purpose: to tell the elected representatives what it intends to do with the public's money in the upcoming fiscal year.

The documents tabled by Finance Minister Ralph Goodale on February 23 show that Ottawa's program spending will be $161.3 billion in the upcoming fiscal year, 2005/2006, an increase of $3.2 billion from $158.1 billion in 2004/2005. At first glance, that projected increase is reassuring. It would mark a welcome break from the spate of increases that boosted program expenditures by some $51 billion in the past five years, slowing the pace of federal debt reduction and largely forestalling broad-based tax relief.

If the recent past is a reliable guide, however, Canadians should take the 2005 budget projections of more moderate spending growth with a grain of salt. Since 1996/1997, the increases in program spending projected in each year's budget or fiscal update have averaged $2.8 billion. Yet to judge from the figures for 2004/2005 shown in the budget, the increases in program spending shown in the public accounts for those same years will average $7.2 billion — more than 2½ times as much. If Ottawa continues to over-shoot the mark as badly in the years ahead, the federal budget will shortly move back into deficit and Canadians will have convincing evidence that federal parliamentarians have lost control of public finances.

Program Spending: The Core of Budgetary Policy

While tax changes and the budget balance attract extensive commentary at budget time, the overall level of taxes and borrowing, or debt reduction, are ultimately determined by how much the government spends. Spending deserves pride of place in budget analysis and it ought, moreover, to be the most straightforward element for MPs to control, unlike tax revenues that fluctuate with ups and downs in the economy, and investment income and debt-servicing costs that move with interest rates. Each year's spending estimates require parliamentary votes, and money bills determine whether governments stand or fall.

Because spending is so important and must pass parliamentary scrutiny, judging the reliability of spending projections should be reasonably clear-cut. For

good and bad reasons, however, it is not. Improvements in the way Ottawa keeps its accounts over the years often mean that current figures are not consistent with those presented to Parliament in the past. Less defensibly, the government presents Parliament with budget figures that net out some $13 billion of revenue and spending annually. This practice removes important activities from the budget presentation, understating the total size and scope of federal activities, and yielding figures that are hard to compare with the full amount shown in the public accounts at year-end. And ad hoc decisions — year-end spending binges and hiding future spending through one-time transfers to special foundations and trusts — render what Parliament sees at the beginning of the fiscal year an unreliable guide to what Canadians will actually get.

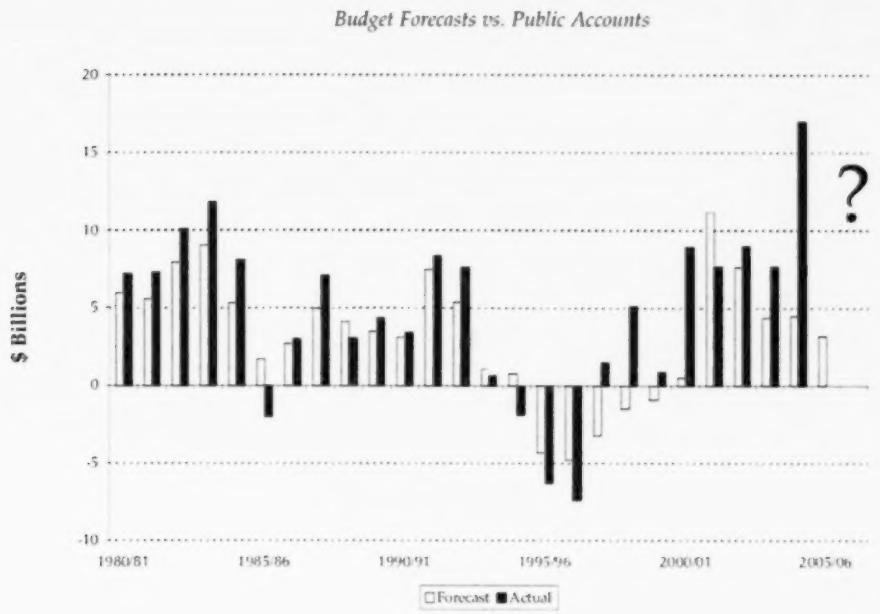
The Record: Budget Projections and Actual Program Spending Since 1980

One way to reduce the distortions of restatements and misleading presentations in comparing budget promises and actual results is to compare the dollar changes in program spending for each budget year with the changes in spending published later in the public accounts for that period. The top panel of Figure 1 makes that comparison in dollar terms since 1980/1981; the bottom panel expresses the annual budget over- or under-forecasts as percentages of the previous year's program spending (as published in the budget) to ease comparisons over time.

The pattern of variances between budget promises and the results as reported in each year's public accounts are not random. While one might expect to see some reflection of the economic cycle, with spending lower than expected during booms and higher than expected during slumps, the variances mostly appear to reflect the degree of pressure on the government to get its finances in order. After the defeat of Joe Clark's minority government restraint budget in 1979, Ottawa aggressively pumped up planned spending, and capped its efforts with sizable annual over-runs. The uneven attempts of Brian Mulroney's government to rein in the deficit are reflected in a ragged pattern of over- and under-shooting that averages to zero from 1985/1986 to 1993/1994. And the early restraint of Paul Martin's days as finance minister achieved cuts in program spending larger than prefigured in annual budgets.

With the easing of fiscal pressure after 1996/1997, over-runs again became the order of the day. Although 2001/2002 looks like a break in the pattern, the 2001 budget was presented in December, when the fiscal year was mostly over and the sizeable over-spending relative to what the 2000 budget projected was already known. The federal government presented no budget at all in 2002, but that year's fall Economic and Fiscal Update — also presented when the fiscal year was mostly in the bag — resumed the pattern of under-projecting spending. The 2003 budget projected an increase of $4.4 billion in program spending for 2003/2004, compared to the $7.7 billion that the 2004 public accounts later showed. And although the 2004 budget projected an increase of $4.5 billion in program spending in the fiscal year that will end March 31, the 2005 budget documents indicate that the actual total will be a stunning $17 billion — a $12.5 billion over-run.

Figure 1: *Changes in Federal Program Spending*



Sources: Federal Budgets or (2001) Economic and Fiscal Update; Public Accounts.

Note: 2004/2005 actual is estimated from $16.7 billion increase in program spending in 2005 budget and allows for $300 million growth in netted items.

What's $12.5 Billion? Ask your MP

For program spending to grow almost 9 percentage points faster than projected in last year's budget — an overshoot that has no equal in the past 25 years — presents Parliamentarians with a serious challenge.

Even Canadians who do not see lower debt and tax relief as top federal priorities should view with concern this widening chasm between what the government says it will do at budget time and what it actually does. Government, regardless of political stripe, is about making choices and choosing intelligently is easier when the whole picture is in view — which only happens at budget time — than when the screen gets blurred as a result of ad hoc decisions.

Canadians who would prefer lower debt and taxes have even more reason to dislike unplanned spending hikes and stashing of money in trusts and foundations. MPs who argue that debt reduction prepares Canada better for the day when the baby-boomers are retired and demanding more public services from fewer taxpayers, or who would prefer lower business taxes to more industrial bailouts, never get to make their case if ad hoc spending sweeps those choices off the table before the debate starts.

The varying pattern of over- and under-spending in the forecasts in the past 25 years shows that there is nothing preordained about the recent colossal gap between budget promises and actual results. Parliament has the power to hold the government to account, to insist that it present budgets using the same accounting practices that it will use in reporting its results at the end of the year, and to spend in the amounts and on the things that it says it will. Focusing spending wisely, keeping the tax burden reasonable and keeping federal debt on a downward path are all possible if MPs do their jobs. Now, with the 2005 federal budget before Parliament, is a good time to start.